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C O N F I D E N T I A L SECTION 01 OF 03 SANTIAGO 000566

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SUBJECT: SCENESETTER FOR PRESIDENT BACHELET'S VISIT TO
WASHINGTON

Classified By: AMBASSADOR PAUL SIMONS FOR REASONS 1.4 (B/D).

SUMMARY

¶1. (C) Chilean President Michelle Bachelet's June 23-24 visit to Washington represents an opportunity to broaden and deepen the "equal partnership" we enjoy with one of the hemisphere's most successful democracies. Chile is off to a strong start with the Obama Administration. The Vice President's March visit to Chile powerfully signaled Washington's interest in engaging with Chile and the region, while Presidents Bachelet and Obama worked effectively together at the Summit of the Americas. Meanwhile, in early June, Chile played a constructive role in backing the U.S. resolution on Cuba's conditional re-entry into the OAS. President Bachelet is keenly interested in forging even stronger bonds with the Obama Administration. The visit will offer an opportunity to review regional developments with a trusted partner and deepen cooperation on new issues ranging from renewable energy to assistance for Haiti and Central America.

Sky High Approval Ratings for President Bachelet

¶2. (C) Chile's first female president, Michelle Bachelet, is wildly popular, enjoying the highest approval rating ever (76%) of any Chilean president. Under talented Finance Minister Andres Velasco, Chile has responded effectively to the global financial crisis, drawing down on Chile's sovereign wealth funds to finance a USD 4 billion economic stimulus program featuring new jobs, labor subsidies for youth workers, and targeted tax cuts. Despite her economic success, Bachelet views her legacy primarily in the social sphere. Her initiatives have expanded Chile's privatized pension scheme to vulnerable lower-income populations, offered free day care and basic nutrition for low-income families, expanded access to health care, and strengthened public education.

A Tight Race Ahead: December 2009 Elections

¶3. (C) Despite President Bachelet's popularity, the ruling center-left Concertacion coalition faces a tight race in December's presidential and parliamentary elections. The President is constitutionally precluded from immediate re-election, and candidates from the two main political coalitions are at a loss as to how to portray themselves.

Chileans are tired of 20 years of Concertacion rule, some inefficiency and mismanagement in government, and the same faces dominating Chilean politics. On the other hand, President Bachelet is enormously popular, her policies are generally well-regarded, and Chileans are grateful that the financial crisis has not hit their country harder. Billionaire entrepreneur Sebastian Pinera, representing the center-right Alianza coalition, has a 10 to 15 point lead over likely Concertacion candidate Eduardo Frei, a Senator and former President (1994-2000). Upstart challenger Marco Enriquez-Ominami, a 36-year old legislator, is bucking the Concertacion establishment to run a surprisingly successful independent candidacy, but it is more style than substance in our estimation. Either of the two leading candidates would be strong partners for the Obama Administration.

A Bruised Economy Poised for Recovery

14. (SBU) Chile is fortunate to be in a strong economic position to face the global economic downturn. The country traditionally runs budget surpluses (5.2% of GDP in 2008), has virtually no public debt, and has over USD \$20 billion in offshore sovereign wealth funds, much of it from record copper revenues. One of world's most open economies, Chile boasts trade agreements with 58 countries. Thanks to strong economic growth and targeted initiatives, poverty has dropped from 40% of the national population in 1990 to 14% in 2006. Nonetheless, the global economic downturn has significantly impacted Chile's real economy, with unemployment rising to double digit levels and the economy set to contract by 1% this year.

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A Strong and Dynamic Bilateral Relationship

15. (SBU) The U.S. and Chile have forged a vibrant bilateral partnership over the years, with strong institutions in both countries ensuring continued cooperation from the bottom up as well as from the top down. The new Chile-California Partnership for the 21st Century, launched by President Bachelet and Governor Schwarzenegger in June 2008, highlights the economic and geographic similarities between Chile and California and fosters collaboration in agriculture, energy efficiency, environmental resource management, and education. Bilateral military and law enforcement ties are among the very best in the Hemisphere. Under the U.S.-Chile Free Trade Agreement, annual bilateral trade has nearly tripled in five years to \$20 billion, with Chile our fifth largest trading partner in Latin America. Weak intellectual property protection is among the very few strains in an otherwise thriving trade and investment relationship.

Clean Energy, Health, and Education -- Shared Priorities

16. (SBU) U.S. Chile cooperation is set to expand into several Obama Administration priorities -- clean energy, health and education.

-- Chile's renewable energy endowments -- solar, wind, and geothermal -- are among the best in the hemisphere. A strong proponent of the Energy and Climate Partnership for the Americas initiative, Chile will sign a Memorandum of Understanding with the U.S. Department of Energy to strengthen Chile's new renewable energy center and help launch solar energy pilot projects in northern Chile.

-- Improving health care is a key part of President Bachelet's legacy. She has expanded coverage to those most in need, developing health care facilities in poorer

neighborhoods and improving coverage for dozens of the most frequent illnesses. The U.S. and Chile are now exploring ways to deepen cooperation in providing health care to third countries. With infant and maternal mortality rates similar to developed countries, Chile has focused its assistance in South American countries to lower the mortality rates where it is highest -- Bolivia, Paraguay, and Ecuador. U.S. and Chilean experts could expand further Chile's effective assistance to help reduce infant and maternal mortality rates in Central America and Haiti.

--President Bachelet has sought with less success to improve Chile's public education system. However, she has launched important initiatives and worked with us to expand post-graduate studies in the United States. Under the Equal Opportunities Scholarship Program launched in 2007, up to 100 talented and less advantaged Chileans with limited English are able to study English and pursue PhD programs at U.S. universities each year. This initiative is funded in part by a \$6 billion GOC endowment that helps finance a broader expansion of graduate education, much of it focused on U.S. universities.

Possible Bachelet Discussion Topics

17. (SBU) President Bachelet or other members of her delegation may raise the following topics -- that loom large in the Chilean context -- during her visit with President Obama or other USG officials:

--Regional overview. Bachelet may wish to present her views on regional trends in the two months following the Trinidad summit. Chile may offer to weigh in with Bolivia and Ecuador to promote more moderate, pro U.S. policies.

--Haiti/Central America. Bachelet may raise the potential for triangular U.S. Chile cooperation in health, law enforcement, and agriculture with other partners in the hemisphere including Haiti and Central America.

--Global economic recovery. Chile's strong economic institutions, sound fiscal policies, and intellectual leadership give its voice weight in Latin America. Bachelet

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may wish to provide Chile's input on the global economic recovery, and could ask to join the G-20.

-- AH1N1 Flu Virus. Chile is the fourth country with the most registered AH1N1 cases, and the flu virus is spreading rapidly in the current wet winter climate. CDC is working closely with its Chilean counterparts to monitor the outbreak. Bachelet may discuss the flu outbreak and seek more anti-viral medicine, Tamiflu, from the large U.S. stockpile.

--Black Liquor/Intellectual property. Chile is seeking early elimination of a tax credit received by U.S. paper companies for mixing a pulp by-product with diesel fuel. The Chilean pulp and paper industry has decried the measure as a subsidy that makes their companies uncompetitive. We have been working with Chile's trade ministry to see if progress on this issue could be combined with advances in fulfilling Chile's intellectual property commitments.

SIMONS